

CHAPTER 2

DEPARTMENTAL FINANCIAL REPORTS
ROLES AND RESPONSIBILITIES0201 GENERAL

The preparation and issuance of DoD Component financial reports, for which accounting support is provided by the Defense Finance and Accounting Service (DFAS), is a responsibility of the DFAS. Both the DFAS and DoD Component customers of the DFAS are responsible for reviewing financial reports to assess the accuracy of the reported financial information and take corrective actions, when needed, to improve the timeliness and quality of those financial reports. Ultimately, however, the DoD Component customer is responsible for the financial information in reports which present the financial effects of the Component's operations.

020101. PURPOSE. The purpose of this chapter is to define the roles and responsibilities of the DFAS and its customers regarding the proper and consistent preparation of the financial reports at the DoD Component departmental level and the treatment of transactions from which the financial data included in the reports are derived. (Additional guidance will be developed, and provided separately at a later date, to address the responsibilities for financial reports at the intermediate and installation levels.)

020102. SCOPE. These policies apply to departmental-level financial reports prepared by the DFAS for its DoD Component customers -- the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff or the Joint Staff, the Unified and Specified Commands, the Inspector General of the DoD, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as DoD Component customers). The departmental financial reports encompassed within the scope of this chapter are listed in Appendix 1.

0202 RESPONSIBILITIES

020201. Stewardship and General Responsibilities. The Congress provides resources to finance the programs, missions, and functions of the Department and its Components. Financial reports are a tool to display the status and uses of those resources. For managers to exercise proper stewardship over their resources, it is essential that financial reports be accurate and timely. To achieve the objective of quality and timely financial reports, the following general responsibilities apply:

A. Under Secretary of Defense (Comptroller). The Under Secretary of Defense (Comptroller) is responsible for the development and approval of DoD policy on financial reports and oversight of the issuance and implementation of such policy. This responsibility includes determination of policies governing:

1. The division of responsibilities between the DFAS and its customers.
2. The establishment of internal controls and audit trails required for the preparation of financial reports and the processing of associated transactions (see paragraphs 020202 and 020203, below).
3. The reconciliation of subsidiary records with financial balances (see paragraph 020204, below).
4. The establishment and approval of schedules required to meet financial reporting deadlines (see paragraph 020205, below).
5. Customer approval and adjustment of draft annual reports (see paragraphs 020206 and 020207, below).

6. The types and levels of adjustments that the DFAS is authorized to make without specific prior approval of the customer (see paragraph 020207, below).

7. The types of documentation required from the customer to support adjustments to the official accounting records (see paragraph 020207, below).

8. The processing of prior period adjustments (see paragraph 020208, below).

9. The release of reports (see paragraph 020209, below).

10. Requirements for certifications and letters of representation (see paragraph 020210, below).

11. Adjudication of adjustments and other issues where there is a disagreement between the DoD Component customer and the Defense Finance and Accounting Service (See paragraph 020206.A.1.e.).

B. DoD Components (DFAS Customers). DoD Components are responsible for:

1. Ensuring the accuracy, completeness, timeliness and documentary support for all data generated by the customer and input electronically into finance and accounting systems or submitted to the DFAS for input and/or recording in the finance and accounting systems and inclusion in financial reports.

2. Establishing appropriate internal controls to assure the accuracy of data provided to the DFAS.

3. Reviewing all reports provided by the DFAS to assess the accuracy of the financial information being reported.

a. For financial reports prepared at appropriation level, the

appropriation manager(s) should be involved in such reviews.

b. Such reviews should identify obvious errors, omissions, and significant diversions from expected or planned amounts.

c. Such reviews should compare budgeted and planned levels of activity with the data included in the reports.

d. When errors or omissions are identified, changes to the reports shall not be made by the DoD Component customer, but instead should be referred to the DFAS for correction. This is because other reports, including subsequent iterations of the same report, are/should be produced from official accounting records. These official accounting records must be accurate in order for such other reports to be accurate. Additionally, proposed adjustments to the accounting records are required in order to establish a proper audit trail for all the transactions impacting reports.

4. Perform program and management analyses on the information contained in financial reports.

5. Ensuring that the amounts in the financial reports are consistent and reconcilable with the same data included in management reports prepared by the DoD Component customer.

6. Reconciling and validating that source data for financial transactions.

7. Identifying any conditions in the financial reports that indicate an apparent violation of the Antideficiency Act and initiating an investigation in accordance with Volume 14 of this regulation.

C. The Director, Defense Finance and Accounting Service (DFAS). The Director of the DFAS shall establish procedures to ensure that:

1. The process for preparing financial reports is consistent, timely, auditable, and controls are in place to provide for the accuracy of the reports.

2. Repetitive or comparable financial reports are prepared consistently in the same manner by use of the same procedures, practices, and systems. Implementing this policy may require the joint efforts of the DFAS and its customers to achieve standard procedures, practices, and systems used in preparing financial reports. To achieve this:

a. It is envisioned that a report prepared on a regular recurring basis should be consistently prepared by use of the same correct procedures, practices, and system at a particular location from reporting period to reporting period.

b. It is not envisioned that all financial reports will be required to be prepared at a single location or by use of a single automated financial system.

c. It is not intended that the introduction of improvements in policies, procedures, or systems used to prepare financial reports will be prohibited or limited.

3. Repetitive or comparable reports are edited and validated for accuracy and consistency between reports from the prior period(s) and reports for the current period.

4. Reports are validated to ensure that all data elements are included in the reports and that the same data elements included in different reports are reported consistently from the same source during the same reporting period.

5. Data provided by the customer (including data input to finance and accounting systems by the customer) is accurately and timely recorded and processed in finance and accounting systems. This includes performing designated disbursing and accounting operations

on behalf of the customer and recording the results of those operations in a timely and accurate manner.

6. Reports are prepared and verified to the official accounting records. The DFAS shall ensure that reported amounts agree with the appropriate general ledger balance(s), whenever applicable.

7. A complete, documented audit trail to the source transactions supports the DFAS-prepared reports.

8. Classified financial information is properly safeguarded.

020202. Internal Controls

A. DoD Components (DFAS Customers). DoD Components shall establish appropriate internal controls to ensure that data provided to the DFAS, whether electronically or otherwise, to be recorded in the accounting systems and subsequently used in financial reports is accurate, complete, and supportable. DoD Components shall install controls to ensure that:

1. All financial transactions are submitted to the DFAS. These controls should include tools to identify and track the numbers, types, and dollar amounts of transactions submitted to the DFAS.

2. Before submission to the DFAS, all transactions (whether hard copy or electronic) are edited to assure accuracy, e.g., that the transaction is identified correctly in terms of the type of transaction, reported quantity(ies), the dollar amount(s) and other data.

3. Transactions that have occurred during a reporting period are uniquely identified with the reporting period and transmitted to the DFAS during that same reporting period. The reporting period normally ends on the last day of each month, quarter, or fiscal year. The last day of the reporting period, and the final due

date for transactions, may be established for a date(s) other than the last day of each month, quarter, or fiscal year if agreed between the DFAS and the DoD Component customer, and approved by the Office of the Under Secretary of Defense (Comptroller).

4. Draft reports provided by the DFAS for review, certification or approval are returned to the DFAS, with proposed adjustments, if any, for verification with official accounting records. Upon verification with official accounting records, the reports will be released directly by the DFAS to the external recipients of the reports. The requirement to return draft reports to the DFAS for release only applies to financial reports being provided to recipients external to the DoD Components.

5. Annual certifications required by 31 U.S.C. 1501(a) and management representation letters required by the Inspector General, Department of Defense (DoDIG) for annual Chief Financial Officer's financial statements are prepared and submitted when required.

6. The Defense Business Operations Accounting Report (Accounting Report(M)1307) is validated and approved by the DoD Component customer each month.

7. Noted potential Antideficiency Act violations are reviewed and investigated in accordance with Volume 14 of this regulation.

B. Defense Finance and Accounting Service. The DFAS shall establish internal controls to ensure that data provided by each DoD Component customer is recorded accurately and processed timely into the finance and accounting systems. The DFAS shall install controls to ensure that:

1. All transactions that are received are processed correctly. These controls should include tools to identify and track

numbers, types, and dollar amounts of transactions that are received by the DFAS. Such controls also apply to all transactions generated by the DFAS.

2. All transactions generated (whether electronic or hard copy) are edited to assure accuracy, e.g., that the transaction is identified correctly in terms of the type of transaction, reported quantity(ies), the dollar amount(s) and other data.

3. Transactions that have occurred during a reporting period are uniquely identified with the reporting period and processed in order to meet the reporting schedule for the report due date.

4. DFAS-prepared reports are supportable, reliable, and accurate. These controls include tools to ensure that:

a. All transactions applicable to the effective period of the report have been edited and posted to the official accounting records.

b. All DFAS or DoD Component customer proposed adjustments to a previously issued report that are material (see paragraph 020208, below) are edited, validated, documented and posted to the official accounting records.

c. Reported amounts are verified to the amounts contained in the official accounting records.

d. Report lines have the proper sign (plus or negative).

e. Mathematical calculations on each report are validated.

f. Identified relationships between amounts on report lines within a report and from one report to another report are checked and validated.

g. Current reports are compared to prior reports and checks are made to identify significant errors, omissions, and distortions.

h. Applicable corrections are made to the reports before release to the recipients.

5. Noted potential Antideficiency Act violations are reported to customers for their review and investigation in accordance with Volume 14 of this regulation.

020203. Audit Trails

A. DoD Components (DFAS Customers). DoD Components shall ensure that audit trails are maintained in sufficient detail to permit tracing of transactions with a unique identity from its source to its transmission to the DFAS. This is necessary to demonstrate the accuracy, completeness, and timeliness of a transaction; as well as to provide documentary support, if required, for all data generated by the DoD Component and submitted to the DFAS for recording in the accounting systems and use in financial reports.

B. Defense Finance and Accounting Service. The DFAS shall ensure that a complete and documented audit trail is maintained to support the reports it prepares. The audit trail shall include assurance that:

1. The numbers, types, and dollar amounts of transactions transmitted by the customer are received and tracked by the DFAS to ensure that they are properly processed and recorded.

2. The numbers, types, and dollar amounts of transactions received from customers, as well as those generated by the DFAS, are processed timely and entered accurately into the finance and accounting systems.

3. All transactions received from customers, as well as generated by the DFAS, with an effective date of the current reporting period are included in the data reported for that reporting period.

4. Specific edits shall be applied by type of transaction in each finance or accounting system. Those transactions failing to pass edits, and/or otherwise not entered, are controlled and assigned for research and correction by the DFAS and/or the customer and, to the degree feasible, are recorded in suspense accounts in the accounting system. Examples of input transactions that may require research by the customer include but are not limited to:

a. Personnel transactions inputting data to the payroll system that exclude data essential to pay employees.

b. Obligation transactions as a result of contracts or purchase orders that exclude data essential for recording the transactions in accounting or payment systems.

c. Receipt and acceptance transactions that exclude data essential for recording the transactions in accounting or payment systems.

d. Disbursements that do not match obligations or receipts because of missing program data.

5. The preparation of all financial reports is consistent from one reporting period to another reporting period, and that the same financial information is used as the source for different reports whenever the same information is reported.

6. Ending balances for one reporting period will be perpetuated as the beginning balances for the next reporting period and those values shall not be changed as they are carried forward to the subsequent reporting period.

7. The source of financial information for all financial reports is recorded in the official accounting records. Supporting documents or images of the supporting documents should be retained by the organization that translates the information into an electronic mode. Incoming electronic information need not be supported with documentation, provided that internal controls are in place to assure that the transactions are:

a. Adequately edited for accuracy and completeness.

b. Properly controlled from unauthorized access and use.

c. Identified, tracked and controlled to ensure that the numbers, types and dollar amounts are complete.

d. Properly authorized and approved by duly designated officials.

8. The major sources of data provided to the accounting and reporting systems are documented at a high level and a copy of the documentation provided to the customer for their information and appropriate action, if required.

020204. Reconciliation of Subsidiary Records with Financial Balances. Many financial balances (e.g., general ledger proprietary and budgetary accounts such as assets, liabilities, commitments and undelivered orders) require supporting subsidiary records to validate the amount of the financial balance. Such subsidiary records shall be reconciled to financial balances in accordance with the policies, requirements, and frequencies prescribed in the DoD Financial Management Regulation.

A. DoD Components (DFAS Component Customers). The supporting records for many financial balances are maintained by the DFAS customers and are outside the control of the DFAS--for example, assets such as inventories, plant property, and equipment. This

also is true of some liabilities such as some claims payable.

1. When subsidiary records are maintained by the DoD Component customer, outside the control of the DFAS, the DFAS shall establish a reconciliation schedule, mutually agreed to by the DoD Component customer and subject to approval by the Office of the Under Secretary of Defense (Comptroller), to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of the DFAS and the customer.

2. The accuracy of such subsidiary records shall be validated periodically, on a sample or other authorized basis, against applicable physical assets or other appropriate confirmations of the source documents.

a. For example, in the case of equipment, inventories, supplies and materials, or real property, periodic counting or other physical verification of the assets is required by various regulations depending upon the nature of the asset.

b. In the case of commitments, obligations and accounts payable; periodic validation of source data is required. These validations shall include reviews of requests for procurement actions, contracts and other procurement actions, personnel status information, supply requisitions, receipts and acceptances to ensure the integrity and currency of the source data.

3. Changes in the source data shall be documented and provided to the DFAS for recording as financial transactions.

B. Defense Finance and Accounting Service.

1. The DFAS shall establish procedures to ensure that all general ledger balances and other associated financial balances which require supporting subsidiary records are

reconciled, at least on a quarterly basis, or more frequently, if specifically required by the Office of the Under Secretary of Defense (Comptroller), with the amounts contained in the supporting records, including original source data.

2. Unreconciled differences shall be investigated in accordance with applicable provisions of this Regulation and appropriate adjustments documented and processed to balance the general ledger amount with the amount of the subsidiary records.

3. Many of the supporting subsidiary records for the financial balance amounts are established and maintained by the DFAS. Examples of these subsidiary records are accounts receivable, accounts payable, and various other asset and liability balances. DoD Component customer participation may be required in the reconciliation process for the DFAS maintained subsidiary records if the original source documents or transactions that require research to complete the reconciliation are retained by the customer.

4. When unreconcilable differences between the general ledger and the subsidiary ledger records exceed \$1 million, the reconciliations shall be performed on a monthly basis in order to determine the cause of the differences and to take appropriate corrective actions to ensure the accuracy and integrity of the accounting system and monthly reports.

020205. Reporting Schedules

A. The DFAS shall establish procedures to require their activities that prepare external financial reports to develop report preparation schedules jointly with customers. The purpose of these schedules is to meet the reporting due dates consistent with the policies in this chapter.

B. Reporting schedules for reports being provided to external recipients shall

include the opportunity to present a draft of the report to the customer for approval prior to release to the recipients.

C. Reporting schedules for DoD Departmental-level reporting entities shall be submitted to the Office of the Under Secretary of Defense (Comptroller) for approval.

020206. Draft Reports

A. DoD Components (DFAS Customers). DoD Component customers shall take the following actions on all financial reports including draft annual reports:

1. Review the reports provided by the DFAS to assess the accuracy of the financial information being reported.

a. The review should attempt to identify obvious errors, omissions, and significant diversions from expected or planned amounts.

b. The review should compare budgeted and planned levels of activity with the data included in the reports.

c. When material errors or omissions are identified in a draft report, the DFAS will be requested to revise the report and include the changes in the final report.

d. DoD Component customers shall not make changes to draft annual reports nor release the reports to external recipients. To do so will result in the official accounting records being unreconcilable to such reports and the reports will not be supported fully with documented audit trails for all the transactions impacting the reports.

e. Requests for adjudication may be submitted by either the DoD Component or the DFAS. DoD Component-proposed changes to the draft annual reports with which the DFAS does not concur shall be referred to

the OUSD(C) for adjudication within fifteen calendar days.

f. When the amount of the proposed adjustments are material (see paragraph 020208, below), the DFAS shall revise the report as a result of processing the adjustments.

2. Research and propose adjustments to correct, as appropriate, abnormal account balances in terms of reverse signs, unusual amounts, and other obvious errors.

3. Research any unusual trends and comparisons with prior year and/or prior period amounts to determine what corrective actions are appropriate or needed.

4. Ensure that the amounts in financial reports are consistent and reconcilable with the same financial data included in management reports prepared by the DoD Component customer.

B. Defense Finance and Accounting Service. Prior to release of a draft report to the customer for review and approval, or release of a final report to a recipient, the DFAS shall validate the report to ensure that the reported amounts agree with the official accounting records. The DFAS shall perform quality reviews on all reports to confirm that:

1. Amounts on the report are mathematically correct.

2. Internal relationships of amounts included in a report that are interdependent are proven to be correct.

3. Abnormal account balances in terms of reverse signs, unusual amounts, and other obvious errors are identified and assigned for research and correction to the DFAS or to the customer.

4. Reported amounts for the same data elements for the same report period are consistent across all similar financial reports.

5. Unusual trends and comparisons with prior year and/or prior period amounts are identified and called to the attention of the customer for appropriate action or analysis by the customer.

020207. Current Period Adjustments

A. DoD Components (DFAS Customers). In addition to other reports, these procedures also apply to the Chief Financial Officer's annual financial statements that have been provided to the DODIG for audit. DoD Components shall adequately document and support any proposed adjustment.

1. This documentation shall consist of evidence of the need for the adjustment in sufficient detail to provide an audit trail to the source transaction(s) that requires the adjustment.

2. Adjustments to recurring monthly, quarterly, and semiannual reports shall be made during the course of routine operations and provided to the DFAS as with any other input as a part of current period business.

3. The Component may be required to review and approve documentation of adjustments proposed by the DFAS in accordance with the policies specified in this chapter.

4. The Component also shall maintain records of notifications, by the DFAS, of adjustments made by the DFAS.

B. Defense Finance and Accounting Service. The DFAS shall identify the requirement for adjustments to financial data.

1. There are many reasons for adjustments. In some cases, the need for

correction of errors is apparent. Examples include:

a. The total of the subsidiary records for an account does not agree with the financial balance representing the total.

b. Correction of a transaction.

c. Correction of an earlier adjustment that has been determined to have been made in error.

d. Adjustments to obligations and, if applicable, liabilities and expenses by aligning the obligation, accrual, or expense amount with the liquidation amount for receipts, acceptances, and/or disbursements. Such adjustments may be required when the unit price of an item or service being procured is revised, when special terms are offered on an invoice such as a voluntary price reduction or when a final payment for a delivery of products or services varies from the amount obligated or accrued for the delivery, and when final payment on a contract or order varies from the total amount obligated or accrued.

2. DFAS errors that are corrected prior to the results of the error being provided to the customer are not adjustments, but merely the correction of errors and need not be reported to the customer.

3. The DFAS shall support adequately, and justify in writing, any adjustment to the official accounting records. Documentation shall consist of evidence that supports the need to correct the error and adjust the balances in sufficient detail to provide an audit trail to the source transaction(s) that requires the adjustment.

a. The documentation shall include the rationale and justification for the adjustment, the detail numbers and dollar amounts of errors or conditions that are related to the transactions or records that are proposed for adjustment, the date of the adjustment, and

the name and position of the individual approving the adjustment. The documentation also shall be sufficient to provide an audit trail to the detail transaction(s) being adjusted or corrected.

b. The following types of adjustments may be made by the DFAS without the prior approval of the customer.

1 Adjustments to correct systems processing deficiencies. For example, a systems programming error may under some conditions cause a sign of a transaction to be reversed. Therefore, instead of accounts payable being increased as a result of a receipt and acceptance, the accounts payable may be reduced. Correction of these types of programming deficiencies requires the processing of an adjustment by the DFAS.

2 Adjustments to correct an error made by the DFAS in processing a transaction or a previous adjustment.

3 An adjustment to correct a financial balance (i.e., general ledger amount) to equal the sum of subsidiary records.

4 Adjustments to obligations and, if applicable, liabilities and expenses by aligning the obligation, accrual, or expense amount with the liquidation amount for receipts, acceptances, and/or disbursements when such adjustments are required by applicable supporting information.

5 Adjustments to correct errors made by the DFAS in the preparation of a report, i.e., calculation errors and similar mistakes, shall be corrected by the DFAS with notice provided to the customer only when the customer previously was provided a copy of the report. A corrected report will be provided to the customer.

6 Adjustments to correct other DFAS errors.

c. Those adjustments proposed by the DFAS not identified in paragraph 020207.B.3.b, above, shall be approved by the customer before the adjustment is recorded.

d. The DFAS shall advise the customer at least once each month of the total amount, by type, and the categories of reasons for such adjustments made by the DFAS at the operating activity level. DFAS errors that are corrected before the customer is aware of the error need not be included in this report.

e. If a proposed adjustment by the DFAS or by a DoD Component customer to any amount on a draft annual report is not material (see paragraph 020208, below), the DFAS shall request the customer to approve the annual report without a revision to the report. The DFAS shall process such non-material adjustments as current business for inclusion in the next current report period.

f. The chief of the applicable DFAS reports section shall ensure that any proposed adjustments to an annual report are documented and supported in terms of reasons for the adjustment. If the reason for the adjustment is adequately documented and supported, the adjustment will be processed provided that there is an identifiable audit trail to the source transactions. The documentation shall include the name, position and title of the approving official, as well as, the date approved.

020208. Prior Period Adjustments Guidance describing the roles and responsibilities for recording and controlling Prior Period Adjustments pertaining to the Chief Financial Officer Act financial statements and Defense Business Operations Fund accounting report statements are contained in "DoD Guidance on Form and Content of Financial Statements" (as updated yearly) and Financial Management Regulation (DoD 7000.14R, Volume 11B), "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund", respectively.

Guidance describing the recording and reporting of prior year corrections in budgetary accounts are contained in Chapters 24 and 93 of the DoD Accounting Manual (DoD 7220.9-M). That information is scheduled for incorporation into Chapter 4 of this Volume.

020209. Release of Reports

A. DoD Components (DFAS Customers). DoD Components shall approve draft annual reports and return those reports to the DFAS for appropriate revision, validation, and release as final reports. The DoD Component customers shall take the following actions on all reports, including monthly, quarterly, semiannual and annual reports, after release by the DFAS:

1. Review the reports provided by the DFAS to assess the accuracy of the financial information being reported. The review should attempt to identify obvious errors, omissions, and significant diversions from expected or planned amounts.

2. The review should compare budgeted and planned levels of activity with the data included in the reports. When errors or omissions are identified, proposed adjustments will be identified for inclusion in the next current report period.

3. Research and correct, as appropriate, abnormal account balances in terms of reverse signs, unusual amounts, and other obvious errors that are identified by the DFAS.

4. Research any unusual trends and comparisons with prior year and/or prior period amounts to determine if corrective actions are appropriate to deal with adverse trends or cycles.

5. Ensure that the amounts in the financial reports are consistent and reconcilable with the same financial data included in

management reports prepared by the DoD Component.

6. The DoD Component customer, shall not release officially any reports--including monthly recurring reports such as budget execution reports--submitted to any organization external to the DoD Component. (Such reports may be released only by the DFAS.)

B. Defense Finance and Accounting Service. The DFAS shall validate all final reports using the official accounting records prior to release to the recipients.

1. Upon receipt of approved annual draft reports from the DoD Components, such reports shall be reviewed to ensure that the reported amounts agree with the official accounting records or that properly documented material adjustments have been submitted to support any proposed changes to the reports.

2. For annual financial reports that have been revised for material adjustments as indicated in paragraph 020208, above, the DFAS departmental-level reports section shall have on file documentation supporting the prior period adjustments along with an audit trail of the approval and recording of the transactions and reports on the recording of the associated installation level adjustments.

3. For adjustments requested by DoD Component customers, the request shall be provided in writing with the documentation for the proposed prior period adjustments.

4. When material errors or omissions are identified after a final report has been released to the recipients, the DFAS will not revise and reissue the final reports. However, the DFAS will process and control all material prior period adjustments solely for presentation in a supporting schedule for the prior year column in the subsequent year's Chief Financial Officer comparative financial statements. The prior year column of the report will reflect the amounts previously reported for

that fiscal year. The report will be footnoted and a schedule included with the footnote to disclose the prior period adjustments processed after the report was finalized and the related impacts on the applicable report lines in the prior year column.

5. The DFAS, rather than the DoD Component customer, shall release officially all reports--including monthly recurring reports such as budget execution reports--submitted to any organization external to the DoD Component. This action shall be taken after final validation that corrections and adjustments have been made, the reports agree with the official accounting records and annual reports are approved by the customer.

020210. Certifications/Letters of Representation

A. DoD Components/Reporting Entity. A reporting entity is the organization represented by the financial information on the report. This may be a DoD Component headquarters, or a subordinate command/organization. For example, reporting entities may include an individual command or activity such as a shipyard or a supply depot. It also could encompass a number of activities within a business area (such as all shipyards or aircraft depot maintenance activities) in a Military Department. A reporting entity also can be at a DoD Component level. For example, the Chief Financial Officer annual financial statements for a Military Department include all financial information required to portray fully all relevant activities of the Military Department.

1. The information presented in the financial reports for a reporting entity, at a subordinate reporting entity, major command or Departmental-level reflects the net effect or results of decisions made, and actions taken, by the personnel responsible for conducting the programs, operations and affairs of the reporting entity.

2. It is recognized that the DFAS is authorized to perform disbursing for some

payments and accounting functions on behalf of the reporting entity.

a. However, the originating decisions that resulted in the obligation and/or the acceptance of performance and ultimately the need for a disbursement were made by operating officials of the reporting entity. The disbursement is merely the satisfaction of a liability incurred as a result of such decisions taken by operating or program officials of the reporting entity. The DFAS does not make the decisions to incur the liabilities but merely to make payment in conformance with the liabilities incurred by the operating or program officials.

b. The same operational concept applies to accounting adjustments. Adjustments are needed to correct errors of commission and omission in financial data. The purposes for adjustments include revising records to permit payments to be made accurately and/or to properly present financial information in accordance with the decisions made and actions taken by the program and operating officials of the reporting entity.

c. The DFAS performs these payment and accounting functions on behalf of the DoD Component customer only to the degree of carrying out the full intent and effect of the actions taken or decisions made by the program and operating officials of the reporting entity. Thus, only to this limited degree could the performance of the disbursing and accounting functions by the DFAS be viewed as being responsible for the actions summarized in the information contained in financial reports.

d. Therefore, the financial information presented in the report is considered to be a representation of the financial status of the reporting entity and not the organization preparing the report (DFAS).

3. For the above reasons, the reporting entity is responsible for annual certifications required by 31 U.S.C. 1501(b) and representation letters in support of annual Chief

Financial Officer's financial statements required by the DoDIG.

4. The reporting entity also is responsible for signing the "Defense Business Operations Fund Accounting Report," (Accounting Report(M)1307).

5. However, because of the role that the DFAS plays in these functions and in the preparation and presentation of the financial reports, the DFAS is required to provide supporting certifications and letters to the reporting entity, as described in the following section, in order to properly support the reporting entity's certification and representation letter.

B. Defense Finance and Accounting Service. The DFAS has been designated to provide accounting and reporting support for the Military Departments and selected DoD Agencies. The DFAS has certain responsibilities, as defined above, in regard to the processing of financial data and the preparation of the financial reports for these customers. Therefore, the DFAS shall provide the following for the DoD Component customer:

1. The DFAS is responsible to the reporting entity for the performance of disbursing, accounting, and reporting responsibilities and shall provide assurances and certifications, when requested, to the reporting entity regarding the quality of the accounting and report preparation services performed for the DoD Component customers.

2. The DFAS is responsible for signing the recurring monthly, quarterly and semiannual reports on behalf of the DoD Component customers with the exception of the "Defense Business Operations Fund Accounting Report," (Accounting Report(M)1307).

3. In support of the DoD Component customers requirement to provide annual certifications required by 31 U.S.C.

1501(b), the Director of the DFAS Center preparing the report shall provide the following certification with the annual TFS 2108, "Year-end Closing Statement":

"I hereby certify that the amounts shown in this report are a complete compilation of amounts contained in official accounting records, have been validated to the official accounting records, and have been reconciled, as required, to appropriate general ledger and subsidiary ledgers. All known material transactions have been included in the report."

4. A similar certification shall be provided by the chief of the applicable reports section to the customer with the monthly "Defense Business Operations Fund Accounting Report," (Accounting Report(M)1307).

5. In support of the DoD Component customers requirement to provide a management representation letter with the annual Chief Financial Officer's financial statements to the DoDIG, or audit activities designated by the DoDIG, the Director of the DFAS shall provide the customer with a certification letter before the due date for the management representation letter.

a. The DFAS certification letter shall include the following statements:

"I hereby certify that the amounts reported in the Chief Financial Officer financial statements are a complete compilation of amounts contained in official accounting records, have been validated to the official accounting records, and have been reconciled, as required, to appropriate general ledger and subsidiary ledgers. All known material transactions have been included in the financial statements."

b. To the degree that problems have been identified to, and acknowledged by, the DFAS in audit reports or other means, the annual certification letter issued by the DFAS to the customer shall disclose such conditions. The recognition of problems shall include any known deficiency that could prevent an auditor from issuing an unqualified opinion; any unresolved financial policy issues; uncorrected material errors, omissions, or unrecorded adjustments; proposed material writeoffs of assets or liabilities; identification of "stop payment" conditions, or evidence of potential or apparent violations of the Antideficiency Act.

APPENDIX 1

DEPARTMENTAL FINANCIAL REPORTS

REPORT TITLE	FREQUENCY	REPORT NUMBER:	APPROVAL/CERTIFICATION	
			LEVEL:	TYPE:
Year-end Closing Statement	Annual	FMS 2108	Army, Navy, Air Force: Assistant Secretary (Financial Management & Comptroller) <i>1/</i> Defense Agency/DoD Field Activities: Comptroller <i>1/</i>	Certification of Obligations
Report on Budget Execution	Monthly Year-end Report	Acct Rpt (M) 1176 Acct Rpt (M) 1176	DFAS Center Authorized Officer Army, Navy, Air Force: Assistant Secretary (Financial Management & Comptroller) <i>1/</i> Defense Agency/DoD Field Activities: Comptroller <i>1/</i> DFAS Center Authorized Officer	Certification Responsible Officer Signature
Appropriation Status by Fiscal Year, Program & Subaccount Flash Report on Obligations	Monthly	Acct Rpt (M) 1002	DFAS Center Authorized Officer	Responsible Officer Signature
Report of Reimbursable Transactions	Monthly	DD Form 1445	DFAS Center Authorized Officer	Report Issued: No signature or statement required
Report on Obligations	Monthly	DD COMP(M)725	DFAS Center Authorized Officer	Report Issued: No signature or statement required
Report on Accounts and Loans Due From the Public	Quarterly	SF 225	DFAS Center Authorized Officer	Report Issued: No signature or statement required
	Annual	None	Army, Navy, Air Force: Assistant Secretary (Financial Management & Comptroller) <i>1/</i> Defense Agency/DoD Field Activities: Comptroller <i>1/</i> DFAS Center Authorized Officer	Certification
Federal Agency Centralized Trial Balance System	Annual	FACTS	DFAS Center Authorized Officer	Report Issued: No signature or statement required
Foreign Currency Fluctuations, Defense	Monthly	DD COMP(M)1506	DFAS Center Authorized Officer	Report Issued: No signature or statement required
Foreign Currency Fluctuations, Construction Defense	Monthly	DD COMP(M)1761	DFAS Center Authorized Officer	Report Issued: No signature or statement required
Statement of Accountability	Monthly	Standard Form 1219	Disbursing Officer	Certify Type & Correct
Statement of Transactions	Monthly	DD COMP(M)1247 DD Form 1329	Disbursing Officer	Responsible Officer Signature
Statement of Inter-Fund Transactions	Monthly	DD Form 1400	DoD Component Authorized Officer	Responsible Officer Signature
CFO Financial Statements	Annual	None	Army, Navy, Air Force: Assistant	Approves statements and signs

APPENDIX. 1

DEPARTMENTAL FINANCIAL REPORTS

REPORT TITLE	FREQUENCY	REPORT NUMBER:	APPROVAL/CERTIFICATION	
			LEVEL:	TYPE:
			Secretary (Financial Management & Comptroller) I/ Defense Agency/DoD Field Activities: Comptroller I/	Transmittal to DoD, CFO
Accounting Report AR 1307 (DHOF Only)	Monthly	AR 1307	DHOF Component Program Manager I/	Acceptance
Prompt Payment Report	Quarterly	Acct Rpt (Q) 1619	Authorized Officer	Quarterly Input-No signature or statement required
Prompt Payment	Annual	Acct Rpt (A) 1607	Component senior official with authority over procurement, logistics, and payment processes. DFAS Center	Accurate Data Certification
DD/EFT Status Report	Quarterly	None		Reports Issued - No signature or statement required
Mutual Logistics Report	Annual	Acct Rpt (A) 1570	Secretaries of Military Departments or designees	Report Issued-No signature or statement required

I/ DPAS will provide a consolidation certification to the applicable DoD Component.